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OFFICE OF CURRENT INTELLIGENCE CENTRAL INTELLIGENCE AGENCY

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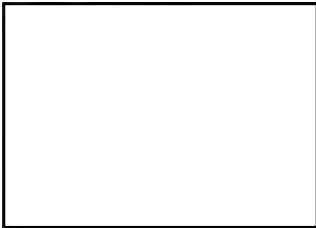
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1. NEW ITALIAN GOVERNMENT CRISIS

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Premier Zoli's decision to resign following a recount of the 8 June confidence vote in the Italian Chamber of Deputies may increase the political bitterness

generated in the past few weeks. Zoli actually received a majority of the votes, but refused to accept the votes cast for him by the neo-fascists. Another Christian Democrat might obtain the support of the small center parties for a new coalition but formation of a caretaker government without a parliamentary majority is more likely.

Such a government would be free to prepare for new elections as soon as it had made provisional appropriations for the new fiscal year starting 1 July. President Gronchi could dissolve the chamber at any time, but he would probably delay such action for about a month so that elections would not need to be held until early fall. The constitution requires elections within 70 days of dissolution.



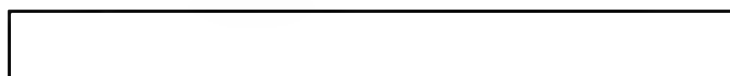
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2. POLISH PRESS COMMENT ON POLISH-US ECONOMIC AGREEMENT

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Signature of the US-Polish economic agreement in Washington on 7 June is front page news in Warsaw newspapers, which have gone beyond the cautious optimism expressed by Go-

mulka in his 5 June speech at Poznan. Trybuna Ludu, official party organ, and Zycie Warszawy, government daily, printed the full text of the joint declaration announcing the agreement. PAP, official news agency, cited the total aid figure of \$95,000,000 before explaining that the agreement consisted of \$48,900,000 in credits with the balance dependent upon US congressional action expected within the next ten days.

While warning that neither the American agreement nor recent credits from Soviet bloc and non-bloc countries will immediately influence living conditions or agricultural productivity, Trybuna Ludu still found the arrangement to be "...exactly as we wished it to be and as we from the first moment suggested it to be to our American partners." Trybuna emphasized that it was a "typical economic and trade financial agreement free of any political conditions or obligations."

Noting that the US grant was a third of what Poland had asked for, Trybuna nonetheless expressed the belief that "possibilities for further development of economic and financial relations with capitalist countries on a basis of mutual benefit have been laid." Zycie Warszawy went even further in expressing the hope that future US-Polish talks "will be shorter and easier than the recent negotiations in Washington." Both Warsaw papers considered the aid agreement a step toward relaxation of international tensions, and a columnist in Trybuna said that the accord would help break down East-West trade barriers.

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4. IRANIAN PRIME MINISTER THREATENS RESIGNATION

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Prime Minister Eqbal told Ambassador Chapin on 8 June that he will resign within two months unless the Shah backs him in his efforts to correct some of the basic deficiencies and lack of discipline in his administration. Eqbal is becoming increasingly discouraged over the inefficiencies, political machinations, and petty details of government that are preventing him from getting ahead with his program.

Comment

Eqbal tends to view Iran's problems somewhat more realistically and more conscientiously than his predecessors and may attempt unpopular measures designed to correct the inefficiencies and lack of co-ordination in his government. If the Shah fails to support him in these efforts and continues to interfere in the daily operations of the government, he will probably resign. The Shah's intentions will not become apparent until his return from Europe, but Eqbal apparently has no intention of being relegated to the status of a figurehead with no authority.



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5. SITUATION IN EAST INDONESIA

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Lt/ Col. Sumual, commander in East Indonesia, has agreed to a "mutual understanding" for normalization of military, financial and economic relations with the central government, according to an official announcement in Djakarta on 10 June. The agreement resulted from talks with army chief of staff General Nasution, who has just returned from a 10-day visit to Sumual's command.

Sumual reportedly has also consented to his transfer and to the division of his command into four military regions, each of which would be directly responsible to the army chief of staff. The announcement, however, gave no indication when Sumual's transfer would occur nor did it identify the officers who would take over the new commands. Moreover, as yet there is no direct word from Colonel Sumual confirming any of these arrangements.

The central government apparently plans to use foreign aid from both the West and the Sino-Soviet bloc to meet the demands of non-Javanese areas for economic development programs. At the same time, it is trying to reduce illegal trade, which has flourished particularly in East Indonesia and has significantly reduced the government's income.

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6. THAI RULING CLIQUE DEEPLY SPLIT

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Political observers in Bangkok--both American and Thai--are unanimous in their belief that there is a wide split in the Thai ruling clique, according to the American air attaché in Bangkok. Elements of Thailand's governing elite are said to be rallying around Defense Minister Sarit on the one hand and Premier Phibun and Interior Minister Phao on the other.

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Comment Sarit and his followers have been increasingly active in politics during the past three months, and there have been reports that a pro-Sarit party is being organized. In a confidence vote, Sarit might well be able to muster enough votes in the National Assembly to unseat the government.

In the event Sarit would decide to risk such a vote, he might first take steps which would be tantamount to a bloodless coup d'etat such as imposing martial law in the Bangkok area. In this way he might protect himself and members of his faction from violent countermeasures which Phao, in particular, would probably not hesitate to take.

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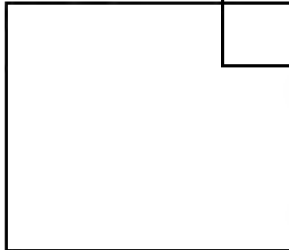
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7. JAPAN TEMPORARILY TO MAINTAIN DIFFERENTIAL ON CHINA TRADE

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Japan temporarily will not follow Britain's action in abolishing the China differential trade controls but intends to adhere to the general lines of the China Committee's

compromise Plan A, the American embassy in Tokyo reports. Kenzo Yoshida, chief of the Japanese Foreign Ministry's trade controls section, told embassy officers that Japan would export freely 157 items proposed by the US for decontrol and would follow existing exceptions procedures when possible.

Yoshida emphasized, however, that this policy could be considered an interim arrangement only. He expressed pessimism over the length of time this policy could be maintained.

Comment

This Japanese decision almost certainly derives from concern for US-Japanese relations on the eve of Kishi's visit to Washington. In the face of heavy domestic pressure, Kishi's government cannot long maintain China trade controls not observed by a major competitor.

